



ARIZONA STATE RETIREMENT SYSTEM

Financial Horizons

WINTER 2004

Director's Message



Welcome to the winter edition of Financial Horizons!

This issue contains important information regarding contribution

rates. Every two years, the ASRS adjusts contribution rates to ensure your pension plan is fiscally sound. A number of factors have led to an increase in contribution rates for next fiscal year. The rates, along with an explanation of the factors, are contained in the article on this page.

The new contribution rates determined by our outside actuary were adopted by the Board of Trustees at its November 19 meeting, and will take effect on July 1, 2005. We realize contribution rates are an important factor in your personal budgeting. Keep in mind that the investments in your pension plan today will support your retirement in your future!

On another note, the ASRS is in the process of compiling its annual report, which should be available by the first of the year. I can tell you that we are continuing to grow, with our membership topping 400,000 this year, a record. At the end of the fiscal year, June 30, 2004, the ASRS had more than \$21.2 billion in assets, and had a 12-month rate of return on investments of 17.5 percent.

New Contribution Rates set for next fiscal year

As required by state statute, the Arizona State Retirement System adjusts contribution rates every two years to ensure the pension plan, retiree health insurance premium benefit program and long-term disability income plan remain fiscally sound.

Due to a variety of factors, including past benefit increases, low mid-term investment returns and changing demographics of the ASRS membership, the ASRS will be increasing contribution rates for the period from July 1, 2005 through June 30, 2007. The new rates will be:

Retirement and Retiree Health Insurance Premium Benefit Plans: Increase from the current 5.2 percent of employee and employer contributions to 7.75 percent.

Long Term Disability Income Plan: No increase from the current 0.5 percent of employee and employer contributions.

Combined Contribution Rate: Increase from the current 5.7 percent to 8.25 percent for each employee and employer contribution.

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Director Outreach Meetings

In an effort to improve communication with members and retirees, ASRS Director Paul Matson is initiating a series of Director Outreach Meetings.

Active and retired members are invited to these informal meetings to discuss issues and concerns.

You're Invited!

Yuma, March 14, 3 p.m. at the Yuma Elementary School District Board Room, 450 W. 6th Street.

Flagstaff, March 31, 11 a.m. at the Coconino County Complex, 219 E. Cherry Street.

Springerville, May 5, 11 a.m. at the Springerville Round Valley Unified School District, 940 B E. Maricopa Road.

Tucson, November 9, 11:30 a.m., ASRS Tucson office.

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Member

Recent changes to the ASRS Service Purchase program

A number of changes to the ASRS Service Purchase program have been made over the past several months, making the program more cost efficient and equitable to all ASRS members.

Service Purchase allows active, contributing members to add service credit to their ASRS account, which in turn can add to their overall pension when they retire. Pension benefits are calculated based on a formula that takes into account average monthly compensation, years of credited service, and a graded multiplier which increases with total years of service.

The cost to purchase past credited service is based upon the Actuarial Present Value of the added benefit.

Recent changes to the program include:

Service Purchase requests are now being accepted any time of the year for members who work less than a full 12-month work year, such as teachers. Past practice had been to accept a Service Purchase request only during the months that members were working and contributing to the retirement system.

Interest is charged for all new Payroll Deduction Agreements as of July 1, 2004 and is set at 8 percent, the ASRS earnings rate.

Actuarial Present Value calculation method is now used to calculate the cost of Service Purchase credits, rather than "normal cost," which had been previously used. This change, which became effective August 25, 2004, ensures members who benefit from the additional service credit pay for that benefit, rather than it being subsidized by all members. Qualified members may now purchase time served in the National Guard or on active military reserve duty.

Please note: Due to a significant backlog of service purchase requests, it may take the ASRS up to six months to process individual requests and issue a Service Purchase Invoice.

To learn more about Service Purchase, visit the ASRS website at www.asrs.state.az.us. Members are encouraged to use the Service Purchase Calculator on the website to run various cost scenarios prior to making a formal request for a Service Purchase Invoice. The ASRS Member Services Division is also conducting special Service Purchase workshops, where you can learn more. See Page 3 for details on these and other helpful educational meetings.

Questions may be directed to the ASRS Member Services Division via email at contactus@asrs.state.az.us, or by calling (602) 240-2000 in the Phoenix area, (520) 239-3100 in the Tucson area, or toll-free at 1(800) 621-3778.

Watch for your Expanded Member Statement

Annual Member Statements were scheduled to be mailed to all active and inactive members over the months of November and December. Watch for your personalized statement in the mail!

This year, the Member Statement has been expanded to four pages and includes your personal data on file, beneficiary information, salary history, account activity, a summary of service purchases and information on maximizing your ASRS pension benefits.

Also included are benefit estimates for your monthly pension when you retire. You'll see what your pension would be if you retire at the earliest opportunity, or continue working until you reach normal retirement. These are estimates only, based upon your current salary and projected years of service.

Your annual statement provides an opportunity for you to verify information on file at the ASRS. It's important for members to check and verify information such as your beneficiaries, your address and other personal information.

Be sure to watch for your statement, read it carefully and file it with other important personal papers!

To report any changes in your personal information, such as name change, change of address or to add or change a beneficiary, please contact Member Services. See Page 8 for Contact Us information.

News

From Your Member Services Division . . .

Let us help you plan your retirement

The Member Services Division of the ASRS conducts educational meetings available to all members. As our membership continues to grow, we always look for ways to improve our services. Effective January 1, 2005, the ASRS will offer three different types of meetings: **Group Meetings, Seminars and Service Purchase Meetings.**

Group Meeting: Are you within one year of retiring? In preparation for retirement, you'll learn about potential monthly benefits and options, completing retirement paperwork, health insurance, and return-to-work options.

Seminar: Open to all members. In preparation for retirement, you'll learn about the ASRS organizational structure, benefits as an active, inactive and retired member, member responsibilities, retirement benefit calculations, wills and trusts and Social Security benefits.

Service Purchase Meeting: Open to all members. In preparation for retirement, you'll learn about the Service Purchase process, types of service purchase, cost calculations, and payment options.

Reservations are required and can easily be made by calling our offices at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or 1(800) 621-3778 outside Phoenix and Tucson.

ASRS Group Meetings and Seminar schedules can be found on our website at www.asrs.state.az.us Click on "Calendar."

Long Term Disability Income Plan

During the past legislative session, HB 2077 was passed, making several changes to the ASRS Long Term Disability Income Plan. They include:

- Requires existing employees of new employers to meet the 12-month pre-existing condition limitation that new employees of existing employers are required to meet.

- States that a member will no longer receive benefits if the member refuses to participate in a work rehabilitation program for which the member is reasonably qualified by education, training or experience and that is requested by the insurance company or claims administrator.

- Clarifies that LTD benefits shall be reduced by both primary and dependent Social Security benefits received by the member.

- Requires members eligible for LTD benefits to pursue obtaining Social Security benefits through the appeals process or until the insurance company or claims administrator determines that the member would not be eligible for Social Security disability benefits.

- Modifies the criteria for a member to be considered totally disabled to mean the member has received monthly benefits for 24 months within a five-year period.

- Allows a member on the LTD program to elect to rely on treatment by prayer through spiritual means in accordance with the tenets and practices of a recognized church or religious denomination or Native American traditional medicine without suffering a reduction or suspension of LTD benefits.

- Prohibits an ASRS member convicted of a criminal offense and sentenced to more than six months in any penal institution from receiving LTD benefits for the period of confinement beginning the first day of the month following the first continuous 30 days of the member's confinement.

Becomes effective August 25, 2004.

The ASRS Long Term Disability Income Plan is administered by VPA Inc., of Calabasas, CA. If you have questions on the program, please contact the ASRS LTD Administrator at (602) 240-2133.

ASRS website links offer host of informative sites

The Arizona State Retirement System website offers a host of information relating to your pension benefits, and to retirement in general. Among the services provided is a "Helpful Links" section, which members can access at the top of the home page.

Contained in the links pages are retirement organizations that also offer help and services to ASRS members, including the American Association of Retired Persons. You'll also find information and links for retirement planning, health care providers and state and federal agencies.

In general, the ASRS offers its website links to non-profit organizations that assist or are geared toward our membership demographics or retirees.

Organizations that wish to have links off the ASRS website may call the Communications Office at (602) 240-2016 for more information or to request a form to have their link added to the website.

University Retirement Associations

Northern Arizona University
Retirees Association -
www.nau.edu/naura

Arizona State University Retirees
Association - [www.aspin.asu.edu/
asura](http://www.aspin.asu.edu/asura)

University of Arizona Retirees
Association -
www.retirees.web.arizona.edu

The ASRS Vision

For the benefit of our members, the Arizona State Retirement System will be a leading state benefit plan administrator in the areas of:

- Core Member Services
- Funded Status
- Investment Performance
- Operational Effectiveness

This will be accomplished while keeping program benefits and associated costs relatively aligned and maintaining actuarial and fiscal integrity.

Our Values

Our organizational culture will be based upon the following Values:

Service:

A commitment to service excellence will permeate the organization.

Professionalism:

A highly capable workforce will promote a professional and respectful environment and lead the organization.

Improvement:

A climate of continuous quality improvement and enhanced efficiencies will drive the organization.

Diversity:

Engagement of diversity by the appreciation, recognition, and support for all people will propel the agency to ever greater achievement.

Results:

A results-oriented approach to operations will energize the organization.

Director's Message

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Across the country, public pension plans are facing challenging times, and the ASRS is no exception. As a result, the ASRS will be raising contribution rates to pay for the enhanced benefits to current and future retirees.

The ASRS recently adopted a new Vision and Values statement. They reflect our commitment to providing our members, retirees and employer partners with the best possible service while also focusing on fiscal integrity. Please see Page 4 for our new Vision & Values statement.

Also, in an effort to better learn the concerns of our members and retirees, I plan to implement a series of Director Outreach meetings, which will take me and perhaps members of our Board of Trustees to various parts of our state so we can hear from you. Please see Page 1 for our initial outreach meeting schedule, and I'll look forward to seeing you soon!

Please take time to review this newsletter for additional information important to all members and retirees. I also invite you to visit our website for additional information about your retirement system.

Sincerely,



Paul Matson, ASRS Director

New Contribution Rates

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These rates for fiscal years 2005-06 and 2006-07 will likely put the ASRS in the middle range of contribution rates for similar plans offered throughout the country, while continuing to provide benefits that are at the higher end of public retirement plans.

Three main components have affected the contribution rates – Benefits Increases & Programs, Investment Returns & Low Prior Contribution Rates, and Demographics.

A series of benefit increases and program enhancements, such as increased multipliers, ad hoc pension increases, increased retiree health insurance supplements, subsidized service purchases, and reduced normal retirement ages have occurred since 1990 with the costs generally paid for through the ASRS Fund surplus, as opposed to being paid for by contribution rates. In total, these benefit increases and programs have been extremely costly and significantly reduced the Fund surplus.

Excess returns enabled extremely low contribution rates in the past, which ranged from 2.0 to 3.8 percent from 1990 through 2003, resulting in savings of more than \$1 billion to both employers and employees. Mid-term returns, however, have been below the required rate, and can no longer subsidize contributions.

Changing demographics, particularly the positive fact that our members are living longer, have increased the costs of providing retirement, health insurance, and LTD benefits.

In summary, significantly increased benefits and programs, low mid-term investment returns and very low prior contribution rates, and changing member demographics have caused contribution rates to rise.

The ASRS has over the past year initiated a comprehensive equity and efficiency review of the agency, and has implemented a number of changes to mitigate the increase in the contribution rate. Without these significant ASRS initiatives, the combined retirement, retiree health insurance plan and LTD contribution rate would have been significantly higher.

The ASRS remains committed to providing a safe, secure retirement plan to our current and future retirees. To learn more about your contribution rates, the investment return history of the ASRS or the benefits offered to our members, please visit our website at www.asrs.state.az.us.

Retired Members

ASRS Open Enrollment Closes

The ASRS open enrollment period closed at the end of October for the 64,000-plus retired and 4,800-plus disabled members. More than 3,000 members enrolled in or made changes to their medical and/or dental plans during this year's open enrollment. Coverage is extended to more than 25,000 eligible members enrolled in PacifiCare's medical plans and Fortis Benefits' dental plans. There are an additional 17,000-plus retired and disabled members who continue to be enrolled in employer plans.

PacifiCare's medical plans and Fortis Benefits' dental plans will not experience premium increases in 2005 or 2006. Likewise, most plan provisions will not change and all plans will have benefit improvements. ASRS members enrolled in non-Medicare eligible plans will benefit from the addition of the SilverSneakers Fitness Program. Non-Medicare eligible members enrolled in the PacifiCare PPO plan will have lower premiums beginning January 1 with premiums further reduced on July 1, 2005. ASRS members enrolled in Medicare eligible plans will benefit from the addition of vision services and the introduction of the Caregiver Program. Also, expanded efforts will be undertaken to develop wellness and disease management programs targeting chronic illnesses. Please review your open enrollment brochure for details of these benefit improvements and new plan additions.



Retirees may contribute to State Employees Charitable Campaign

ASRS retirees may now contribute to the State Employees Charitable Campaign. For the past 20 years, state employees have contributed to the charitable campaign that's benefited a variety of organizations dedicated to helping the less fortunate.

Now, retirees may continue to make tax-deductible contributions. To participate, log on to <https://donor2.united-e-way.org>. Enter SECC-2004 in the Campaign Code field, enter SECCRetiree in the Username field, enter pledge04 in the password field, then follow the prompts.

Reminder for Pinal County Medicare eligible ASRS Retired or Disabled Members

Effective January 1, 2005, Pinal County Medicare eligible members will have an additional ASRS medical plan in which they may enroll. PacifiCare will add its Medicare Advantage Plan to all Pinal County, and has also added general practitioners and specialists to the provider network.

ASRS retired and disabled members enrolled in the Department of Administration (ADOA) Benefit Options Program will also have additional medical plans in Pinal County beginning January 1. And, retired and disabled members enrolled in health care plans through the Public Safety Personnel Retirement System, Corrections Officer Retirement Plan and Elected Officials' Retirement Plan will have choice in health care plans in Pinal County effective January 1. All eligible members should have received a letter from either the ASRS, ADOA or PSPRS informing them of their new choices.

With the addition of these new medical plan choices, the additional, temporary premium benefit (also known as the rural subsidy) will cease December 31, 2004 for Pinal County Medicare eligible members of all retirement systems and plans. As a result, the rural subsidy will not be provided to Medicare eligible Pinal County residents with January 1, 2005 pension checks.

Did you know . . .

... The ASRS paid out more than \$1.2 billion in benefits in 2003.

... The average monthly pension benefit in 2003 was \$1,200.

**** Official Notice ****

Military Service Purchase Recalculation

During the 2003 session of the Arizona State Legislature revisions to Arizona Revised Statute 38-764 were made, which may have an impact on ASRS members who purchased past military service. Under the new law, the ASRS is required to recalculate the cost of military service purchased from July 1, 1989 through July 19, 1996 by members – active, retired or deceased – and to provide refunds, plus interest to those who are entitled.

The refunds are based on the difference in the costs of purchasing service prior to July 20, 1996, and the cost of service purchase after that date.

If you purchased military service between those dates, you may be entitled to a refund. If you have questions or need more information, please call the ASRS Member Services Division at: (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, and outside the metro areas at 1(800) 621-3778.

ASRS Board of Trustee Meeting Schedule 2005

February 18, 8:30 a.m.

March 18, 9:30 a.m.

April 15, 8:30 a.m.

May 20, 8:30 a.m.

July 15, 9:30 a.m.

August 19, 8:30 a.m.

September 16, 8:30 a.m.

October 21, 8:30 a.m.

November 18, 8:30 a.m.

December 16, 8:30 a.m.

The ASRS Board of Trustees meets in the 10th floor board room of the ASRS Phoenix office, 3300 N. Central Ave. Meetings are subject to change.

Please visit our website for meeting notices, agendas and past meeting minutes.

Also available on the website are meeting dates for the Board subcommittees of the Investment Review Committee, Operations Review Committee and External Affairs Review Committee.

ASRS Board of Trustees

Dr. Keith Meredith, Chair
Tucson
Member at Large
Term expires 2006

Karl Polen Jr., Vice-Chair
Phoenix
Public Representative
Term expires 2007

Charlotte Borchert, Chandler
Retirees Representative
Term expires 2005

Jim Bruner, Scottsdale
Public Representative
Term expires 2005

Jaime Gutierrez, Tucson
Educators Representative
Term expires 2007

Anne Mariucci, Phoenix
Public Representative
Term expires 2007

Michael Townsend, Flagstaff
Political Subdivisions Representative
Term expires 2005

Lawrence Trachtenberg, Scottsdale
Public Representative
Term expires 2006

Steven Zeman, Phoenix
State Employees Representative
Term expires 2006

Executive Staff

Paul Matson, Director

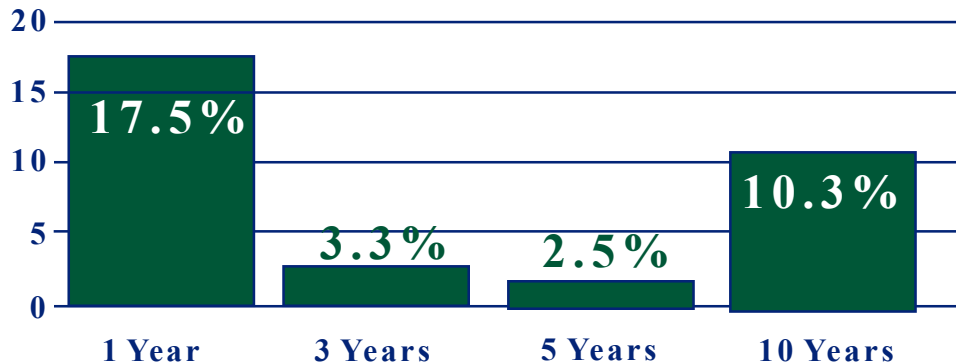
Anthony Guarino, Deputy Director,
Chief Operations Officer

Richard Stephenson, Deputy
Director, External Affairs

Gary Dokes
Chief Investment Officer

ASRS Investment Rates of Return

This graph reflects the rates of return for the period ending June 30, 2004.



Benefits in 2003? That compares with \$292 million paid out in 1990.

was \$1,401? That compares with \$659 in 1990.

COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write to us with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:
Management Support Services
Arizona State Retirement System
P.O. Box 33910
Phoenix, AZ 85067-3910

Financial Horizons, a publication of the Arizona State Retirement System, is published periodically for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Editor
Financial Horizons
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Tracy Darmer, ADA Coordinator, at (602) 240-5378. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

CONTACT US!

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**OUTSIDE METRO PHOENIX
AND TUCSON**
Toll Free at (800) 621-3778

Tax season just around the corner!

Electronic filing recommended

The Arizona Department of Revenue is encouraging all Arizona taxpayers to file their 2004 state and federal tax returns electronically.

Electronic filing saves time and money and is a convenient, efficient and safe way for you to send your tax returns. Whether you file on your own, or use a tax-preparation service, e-file!

There are several websites available to help, including www.irs.gov for federal returns and www.azdor.gov for state returns, where you'll be directed to Free File Alliance software vendors that may offer you the benefit free of charge. Eligibility is based on age, income or filing status.

The non-profit Community Information and Referral Services can help you find information on filing income taxes, including assistance for the elderly, low-income, special needs and non-English speaking populations. You can reach them at (602) 263-8856 or 1(800) 353-3792.